

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

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FISCAL IMPACT STATEMENT

LS 7036

BILL NUMBER: SB 390

DATE PREPARED: Jan 12, 2001

BILL AMENDED:

SUBJECT: Tax credit for contributions to schools.

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FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill provides an Adjusted Gross Income (AGI) Tax credit for charitable donations to public or private elementary schools or high schools located in Indiana for taxable years beginning after December 31, 2000.

Effective Date: January 1, 2001 (retroactive).

Explanation of State Expenditures: The Department of State Revenue (DOR) will incur some administrative expenses related to the revision of tax forms, instructions, and computer programs to incorporate this credit. These expenses could be absorbed given the DOR's existing budget and resources.

Explanation of State Revenues: This bill would reduce tax liabilities for individuals who make charitable contributions to public and private K-12 schools Indiana. *The fiscal impact of this proposal could potentially reduce state revenue by as much as \$9.2 M in FY 2002. While the precise amount is difficult to estimate, the impact may be even greater in subsequent years.*

This bill creates the School Contribution Tax Credit which would be limited to 50% of charitable contributions to Indiana schools, or a maximum of \$100 for a single taxpayer or \$200 for taxpayers filing a joint return. It also provides that a corporation may receive a credit for similar contributions equal to 10% of its total Corporate AGI Tax liability up to \$1,000. It is difficult to project how many taxpayers would claim such a credit, but some data is available regarding charitable contributions to public schools and use of a similar existing tax credit for contributions to Indiana colleges and universities.

Data and Estimation: According to the Department of Education (DOE), public school corporations received more than \$15.7 M in gifts, donations, and bequests in the 1999-2000 school year. The total was \$10 M in 1998-1999 and \$9.2 M in 1997-1998. As the credit is equal to 50% of contributions, the maximum potential credits that could be taken based on this amount could be approximately \$5.8 M (50% of the average total

contributions for the past three years). It is important to note that some gifts, donations, and bequests to public school corporations may not be eligible for a tax credit under the provisions of this bill as many individual contributions are likely to exceed the \$100 and \$200 credit limits. However, as this bill creates an additional incentive for charitable giving to schools, the total number of contributors may increase.

No information is available on individuals and corporate contributions to private schools. According to Department of Education projections, there will be approximately 129,500 children in private schools in 2001. Assuming an average of two private school students per household, there would be 64,750 possible contributors (not including those who do not have school-age children but would make contributions). If half of these taxpayers were to contribute and receive an average credit of \$100, the revenue loss would be \$3.2 M annually.

Contributions from corporations to private high schools may be comparable to those given to institutions of higher education. According to 1998 DOR individual income tax data, 423 corporations claimed almost \$174,000 in College Tax Credits, and 96 of these took the full \$1,000 credit. Under this proposal, for each additional 100 companies claiming the maximum \$1,000 for contributions to public and private schools, the state revenue loss would be \$100,000.

Based on the estimations above, the impact associated with this bill could be as high as \$5.8 M for public school contributions and \$3.4 M for private schools (\$3.2 M from individuals and \$0.2 M from corporations) for a total of \$9.2 M. However, the impact ultimately depends on the effect of the credit limits and the response of taxpayers to this new incentive. The revenue loss would begin in FY 2002 as this proposal is retroactive to January 1, 2001. Individual AGI Tax revenue is deposited in the General Fund, and Corporate AGI tax revenue is deposited in both the General Fund and the Property Tax Replacement Fund.

Additional College Tax Credit data: According to 1998 DOR individual income tax data, 82,327 taxpayers claimed \$7.8 M in credits for contributions to Indiana's higher education institutions. Of this total, 8,112 out of 19,054 single filers took the full \$100 maximum credit, and 19,590 out of 63,273 joint filers took the \$200 maximum. Of those that did *not* take the maximum, the average credit taken by single filers was \$37 or 37% of the limit and the average credit taken by joint filers was \$62 or just 31% of the \$200 maximum.

Explanation of Local Expenditures:

Explanation of Local Revenues: This bill may result in an indeterminable increase in charitable contributions to public school corporations.

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Public school corporations.

Information Sources: DOR's 1998 individual income tax data; DOE database.